

WHICH HOUSE PRICE INDEX? AN ACADATA BRIEFING NOTE

Watch out for the new ONS House Price index to be launched on 14th June. Salient points:

- **ONS follows Acadata in using Land Registry data for its England & Wales index**
 - **ONS follows Land Registry in providing a geometric mean price**
 - **Land Registry HPI dead as a dodo**
 - **new ONS HPI release remains untimely but uses more data than Acadata**

Watch, too, for a significant fall in the average house price as reported by the official index. A geometric mean results in an average some 17% below that of an arithmetic mean calculation. So, we anticipate that the back data to be included in the April ONS HPI (to be issued in June) will show a revised average price for March some 17% below the average for March provided by the old index. Will First Time Buyers be able to rejoice at the price drop? Sadly no. The new ONS mean price calculation lessens the effect of very high and very low prices on the average. Prices in estate agency windows will remain unchanged. Since the LSL Acad E&W HPI will continue to provide arithmetic mean prices, the media, the public and those for whom house price indices are important measures in decision-making will have a choice as to which index to use or whether more soundly to take note of both.

Is the new ONS HPI to be welcomed? Definitely yes. The Rightmove HPI will remain first to be reported every month, followed by the Nationwide, Halifax and LSL Acad E&W HPIs in that order. New ONS HPI will be published, like the current ONS HPI, a further month in arrears. But, setting aside the Rightmove HPI because it reports asking prices, users may compare and contrast the:

- Halifax and Nationwide HPIs both reflecting their loan books and excluding cash purchase data
- LSL Acad E&W and ONS HPIs both using Land Registry prices and including cash purchase data

Contrast this with the picture that has pertained since 2003 when the Financial Times launched our index (then called the FT HPI) followed a month later by the current ONS HPI using mortgage data and, later still, by the Land Registry HPI. The Land Registry index meant that two official average house prices were published. Furthermore, the ONS HPI was weakened when the Land Registry claimed its index to be the “most accurate”. Result? More information proved to be less as far as any understanding of house prices was concerned. The media continued to give primacy to the incumbent Halifax and Nationwide HPIs, especially given the speed with which they were reported and despite how often their results disagreed. The authority of both official indices was dented because, using different data and different methodologies, their results disagreed. Now, as the sole official HPI, the new ONS index will gain traction and the LSL Acad HPI will be its precursor. The lender “conceptual” indices will remain important but for factual prices, we expect decision-makers to look to the LSL Acad and the new ONS HPIs.

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We would welcome any comments sent to info@acadata.co.uk.

A look back. Some readers may recall that Lord King chaired the Bank of England's Monetary Policy Committee (MPC) and, as Mervyn King, pointed to the major differences between the Halifax and the Nationwide HPIs for Q1 1998. In turn, these differences resulted in large differences in possible consumer spending, depending upon which index was chosen. Hence, he called for a new house price index to be prepared to provide greater clarity as to price movements for the MPC. The then Office for the Deputy Prime Minister and the Office for National Statistics (ONS) appointed a committee of experts which considered that Land Registry data lacked adequate "timeliness" for use in the new index and recommended use of mortgage data. The current ONS House Price Index using agreed prices at the time of mortgage completion was duly launched in October 2003. It was preceded by one month by the FT House Price Index (FT HPI) prepared by Acadata (then named Acadametrics) and launched by the Financial Times. Following the sale by Acadametrics of its share of MIAC Acadametrics (engaged in forecasting mortgage risk) to MIAC Analytics from New York, when our name change to Acadata, and the acquisition of branding rights to the HPI by LSL Property Services, the index was retitled the LSL Property Services/Acadata E&W House Price Index from 2010.

About Land Registry data and the LSL Acad HPI. Conveyancing delays mean that Land Registry can report only c.38% of current month prices at month end. In order to overcome the resulting "timeliness" problem in using Land Registry prices, our Dr Steve Satchell at Cambridge University developed an "index of indices" model to forecast the average Land Registry price for the current month based upon the available prices and other indices. This is still in use by Acadata. How accurate is an LSL Acad E&W HPI "forecast"? Not bad:

- January 2014 LSL Acad E&W HPI "forecast" £257,951 cf. "ultimate" £261,000 12 months later
- January 2015 LSL Acad E&W HPI "forecast" £273,528 cf. "ultimate" £276,394 12 months later

About new ONS HPI and Land Registry data. ONS will be receiving a special data release from the Land Registry on the 15th working day of each month providing, we estimate, c.70% of the prices for the prior month. Thus, c.70% of April prices will be employed in the April ONS HPI to be issued 14th June.

About new ONS HPI and additional data. Like LSL Acad HPI, ONS HPI will be mix adjusted. That is, the prices employed will reflect a constant "mix" of the four property types within which Land Registry data are recorded. These are detached, semi-detached, terraced houses and flats. Mix adjustment ensures that the average price is not changed because e.g. many flats but few detached houses are sold in a given month. In addition to the property type and location details employed by Acadata, ONS will be able to employ number of rooms, taken from the Valuation Office Agency (part of HM Customs & Excise), floor area taken from Energy Certificates, the Acorn Classification of neighbourhood quality and whether the property is new or old. The employment by ONS of a geometric mean calculation will prevent a direct comparison of how the use of these characteristics will affect the mean price level. Time will tell what, if any, comparisons will be possible. Note that the typical mix of properties sold changes such that the mix adjustment is typically changed yearly. Such changes can make significant alteration to past prices when recalculated using new weights. This affects any index and accepted methods are employed to blend new and old prices.

Seasonal adjustment. Prices always rise in the Spring. Such rises are not reflective of house price inflation, which is what an index measures. Hence, based upon past data, indices are seasonally adjusted to eliminate seasonal effects. New ONS HPI will be seasonally adjusted, too, dependent upon the the available historic data. Our experience is that the effect on an HPI of seasonal adjustment can be significant.

About the Halifax HPI Markit are now responsible for release of the index: whilst the monthly national results will remain free, Markit will be charging for the regional and other results previously published, free of charge, every quarter.

Which house price index?

What is a geometric mean? Take 1, 2, 3, 4, 5. The geometric mean is calculated using the formula $\sqrt[5]{(1 \times 2 \times 3 \times 4 \times 5)} = 2.605$ (to 3 decimal places). The arithmetic mean is $(1 + 2 + 3 + 4 + 5)/5 = 3$. A geometric mean generally has a lower value than the arithmetic mean. It will be interesting to see to what extent the use of geometric or arithmetic means affect % Annual and % Monthly house price change measures as well as house price levels. Will the LSL Acad E&W HPI “forecast” act as a leading indicator to the new ONS HPI as well as to the LSL Acad E&W HPI “update”? Will house price data users await the updated Land Registry-based indices before regarding their measures as stable? Will decision-makers turn more towards the LSL Acad and new ONS indices and their factual Land Registry based prices after relying for so long on the lender figures? We must wait and see.

Updating. Unlike the Rightmove, Halifax and Nationwide indices using their own data, which are complete at the time of use, it can take a year or even more before every conveyance for a given month is recorded on the Land Register. Using the increasing data available for each month, Land Registry provides us (together with c.38% of the current month prices) c.88% of the prior month prices and, a month later, c.95%. We use these to provide our LSL Acad E&W HPI “update” and LSL Acad E&W HPI “final” prices shown within the back data provided in the latest index. ONS will now adopt our updating procedure. New ONS HPI will stop at the third update whilst LSL Acad E&W HPI continues until the “ultimate” when no additional reported transactions affect the index.

The race to the press. Take house prices in April 2016, for example. The following sequence of results published in May and June has occurred or may be expected:

- May 12: April LSL Acad HPI “forecast” also March LSL Acad E&W HPI “update”
- May 16: May Rightmove HPI
- June 1: May Nationwide HPI
- June 7: May Halifax HPI
- June 9: May LSL Acad HPI “forecast” also April LSL Acad E&W HPI “update”
- June 14: new April ONS HPI
- June 20: June Rightmove HPI

Note that the new April ONS HPI will employ the c.70% April conveyances made available to ONS on c.May 20 whilst the April LSL Acad E&W HPI “update” will have already employed the c.88% made available by LR on June 1. To put the schedule another way, the variously sourced and calculated:

April house prices were/will be reported by:

Rightmove April 18; Nationwide April 30; Halifax May 8; LSL Acad May 12 & June 9; ONS June 14 & c. July 19

May house prices will be/will have been reported by:

Rightmove May 16; Nationwide June 1, Halifax June 7; LSL Acad June 9 & c.July 14; ONS July 19 & August 16

The above suggests that (at least as far as factual Land Registry based prices are concerned) house price reporting may become thought of as divided between:

- month 1 - indicative results from Rightmove, Nationwide, Halifax and LSL Acad “forecast”
- month 2 - factual results from LSL Acad “update” and new ONS
- month 3 - confirmed results from LSL Acad “final” and new ONS “update”

Is that all? No. ONS will be providing a monthly HPI for the UK, E&W and Scotland all consistent, apart from in regularity, with the quarterly HPI for Northern Ireland launched in 2013. The new ONS HPI will report data on cash/non-cash purchases and on type of buyer.